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# Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

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## United Nations Population Fund

### Addendum

Contents

*Page*

**Annual report of the Audit Advisory Committee** ..... 2

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# Annual report of the Audit Advisory Committee

United Nations Population Fund

Audit Advisory Committee

2014 annual report to the Executive Director

## I. Purpose

1. This report is addressed to the Executive Director, UNFPA, and provides a summary of the activities and advice of the Audit Advisory Committee (also refers as "the Committee") of UNFPA during 2014. It is written pursuant to item 14 of its terms of reference, and in accordance with paragraph 25 (c) of section IV, subsection I of the UNFPA revised oversight policy.

## II. Audit Advisory Committee activities in 2014

2. Members of the Audit Advisory Committee. Committee members are appointed for three years, renewable once. The appointments are staggered to provide continuity of service. Committee members possess expertise in risk management, internal control, oversight, governance, financial management and reporting, and development and programme matters. The members of the Committee in 2014 were Ms. Berlina Mxakwe (South Africa), Ms. Mary Ann Wyrsch (USA), Mr. Verasak Liengsririwat (Thailand), Mr. Peter Maertens (the Netherlands) and Mr. Jose Urriza (Argentina). All Committee members are external to the organization, and are independent of UNFPA and its management.

3. Meetings. The Audit Advisory Committee held five meetings in 2014: three in-person meetings (in January, April and October 2014) and two meetings by teleconference (in early part of April 2014 and in the middle of December 2014). Participants in the in-person meetings included, among others, the Executive Director; the two Deputy Executive Directors; programme and operational senior management; the Director, Office of Audit and Investigation Services (OAIS); the Director, Evaluation Office; the Director, Division Management Services, the Ethics Adviser; and the Board of Auditors. The Committee also had private meetings with the Executive Director; the Director, OAIS; the Director, Evaluation Office; the Ethics Adviser; and the Board of Auditors. Mr. Liengsririwat, as the Chairman of the Committee, participated in the annual session 2014 of the UNDP/UNFPA/UNOPS Executive Board during its consideration of UNFPA audit and investigation activities. In addition to the formal Committee meetings, the members held internal consultations and deliberations, reviewed documents and provided advice to UNFPA management via telephone and e-mail. There was no field visit undertaken during 2014 by the Committee's members.

4. Reporting. The Audit Advisory Committee prepared minutes of each of its meetings and met with the Executive Director after each meeting, either in person or by teleconference to provide him with key areas of strategic advice resulting from their briefings and deliberations.

5. Recommendations. The Audit Advisory Committee made recommendations to UNFPA management during its meetings and followed up on the implementation of those recommendations. The Committee will continue to monitor how its various recommendations are adopted in UNFPA.

6. Annual assessment of the effectiveness of the Audit Advisory Committee. The Committee undertook an annual self-assessment exercise to confirm the appropriateness of its terms of reference and to assess its effectiveness. The Committee completed the 2014 self-assessment exercise and will report the results of the self-assessment to the Executive Director in early 2015.

## III. Summary of the advice of the Audit Advisory Committee to UNFPA management in 2014

7. Issues identified by the Audit Advisory Committee, along with the advice provided to the Executive Director and UNFPA senior management in 2014, are summarized below.

8. Financial Regulations and Rules. The Audit Advisory Committee provided its input, comments and recommendations to the proposed revisions to UNFPA Financial Regulations and Rules, which were incorporated into the revisions approved by the Executive Board in June 2014.

9. Financial Statements and Reporting. UNFPA Financial Statements and Reporting for the year ending on 31 December 2013 were prepared in accordance with the International Public Sector Accounting Standards (IPSAS). This is the second year that these standards have been used. The Audit Advisory Committee reviewed and made minor recommendations to enhance the clarity and presentation of the financial statements and the accompanying notes and disclosures. These were accepted and taken into consideration as part of the amendments to the Financial Statements and Reporting and its notes and disclosures. The Committee would like to record its appreciation of the advisory services provided by the Internal Audit Branch of Office of Audit and Investigation Services (OAIS) to the Finance Branch of the Division Management Services and to the Audit Advisory Committee in reviewing the financial reporting. The Committee also acknowledged the improvements made by the Finance Branch of the Division Management Services in the preparation of the 2013 Financial Statements compared to previous year's statements.

10. Policy review. In accordance with its terms of reference, the Audit Advisory Committee reviews policies that significantly impact: (a) financial management and reporting; (b) the internal audit, investigation and evaluation functions; and (c) the effectiveness of the UNFPA system of internal controls and accountability. In 2014, the Committee reviewed the revised oversight policy and made recommendations to enhance it in line with the governance structure of UNFPA. The Committee also provided advice on the roll-out of the revised framework for the harmonized approach to cash transfers on a pilot basis in nine selected countries. In this respect, the Committee will continue to review the progress made and the experience gained from this roll-out. Other policies were reviewed and are elaborated hereafter.

11. Internal control framework. UNFPA is revising its internal control framework, using the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) model. The COSO model addresses risk controls in all aspects of an organization. The draft framework for which the Committee provided recommendations had a narrower focus, in that it covered controls for key administrative processes, but needed further work on programmatic controls. UNFPA management agreed to take the comments into account in the next version that management intends to submit to the UNFPA Executive Committee in 2015.

12. The Audit Advisory Committee considers that:

(a) The internal control framework in UNFPA will evolve as the identification of other controls and the understanding of the framework matures. This includes an expansion into the programmatic area;

(b) The framework should also be used as identification and planning tool to enhance the robustness of internal controls in areas where management believes this is needed;

(c) The evolution of the framework should occur concurrently and in coordination with the enterprise risk management project; and

(d) Specific timeframes for reaching a more comprehensive internal control framework should be adopted by management.

13. Enterprise risk management. As reported in previous years, UNFPA has been working since 2008 to implement the recommendation of the Audit Advisory Committee in developing and implementing a formal integrated enterprise risk management strategy for the Organization. The Committee continued to provide its advice to UNFPA on this subject in 2014.

14. In 2014, a consultant firm was engaged to assist UNFPA in developing a risk identification methodology and identifying the top corporate risks facing the Organization. The exercise with the consultant firm helped the UNFPA Executive Committee members to initiate focused discussions about risks and impact assessment. UNFPA informed the Committee that it plans to embark on an exercise to simplify, restructure and codify the corporate risks and to keep the Committee informed. As noted above, this effort needs to be coordinated with the further developments on the internal control framework, which will be outlining controls for identified risks.

15. Audit Monitoring Committee. The Audit Monitoring Committee has been established in 2011 and is chaired by the Executive Director to strengthen accountability and ensure the implementation of the recommendations put forward by both the Board of Auditors and OAIS. It holds individuals in the divisions and branches directly accountable for the implementation of recommendations. This proactive approach has reduced the number of outstanding recommendations in 2014 and this positive impact is likely to continue.

16. Information and Communication Technology. The Audit Advisory Committee was updated on the Information and Communication Technology (ICT) Strategy for 2014-2017, the ICT Operating Plan for the same period, and the ICT governance structure within UNFPA, including how decisions on ICT projects are made. The Committee was further informed on the use of 'Information Technology Infrastructure Library' as the framework that the Management Information Services branch has been applying in providing its services and on the use of the PRINCE2 project management methodology for ICT project management.

17. In the past few years, OAIS carried out a number of audits on ICT, including the thrust area of governance and security. The depth of these audits, including their findings and recommendations, enhance the security of UNFPA ICT infrastructure, ICT applications and strengthen the ICT operations. The Committee noted that the Management Information System branch had implemented the critical and high-risk recommendations made as a result of these audits.

# IV. Summary of Audit Advisory Committee advice related to the Evaluation Office and the Office of Audit and Investigation Services

18. In accordance with item 16 of its terms of reference, the Audit Advisory Committee regularly reviews the functions of evaluation, audit and investigation, as well as OAIS, including its charter, scope, plans, activities, resources, staffing and organizational structure. In 2014, the Chairman of the Committee provided input on the performance of the Director, OAIS, for 2013.

## A. Evaluation Office

19. The Evaluation Office was split off as a separate entity from formerly the Division for Oversight Services (DOS) in July 2013 and was managed on an interim basis by the Director of formerly DOS. In January 2014, a new Director for the Evaluation Office, who was hired externally, assumed her duties.

20. In each of its meetings, the Committee was briefed on the progress of the Director to restructure the work of the Evaluation Office to achieve the 2014-2015 work plan which was approved at the first session of the Executive Board in January 2014. The 2014 annual evaluation report indicated two particular challenges for the evaluation function: the continuing need to improve the quality of country programme evaluations; and to strengthen evaluation follow-up. Both are important in the longer term to improve UNFPA programme planning and design, as well as the achievement of results. The Evaluation Office has introduced a number of measures to enhance the quality of country programme evaluations, which should lead to improved credibility and utilization. UNFPA should clarify arrangements and reporting on the follow-up of evaluation results and lessons learned.

21. The Audit Advisory Committee noted that there is an increasing demand for evaluation of donor programmes, such as trust funds, at the global, regional and country levels. Clear guidelines should be established regarding funding and management of such evaluation, including the degree of risk that would justify an evaluation decision. This would ensure that proper evaluations are carried out with adequate funding and capacity to ensure that accountability and learning needs are met.

## B. Office of Audit and Investigation Services

22. A draft revised OAIS Charter was presented to the Audit Advisory Committee for review. It reflects the move of the evaluation function to the Evaluation Office and other mandates that were added to the investigation function. The Committee agreed with the revisions, which are in line with best practices in internal audit and investigation offices. Following its presentation at the Executive Board in June 2014 and the approval of the revised Financial Regulations and Rules, the Executive Director approved the revised OAIS Charter on 17 July 2014.

### Internal audit

23. The Audit Advisory Committee recommended to the Executive Director the approval of the 2014 internal audit plan that was consistent with the rolling audit strategy, 2014-2017, that is aligned with the business needs of UNFPA. The internal audit plans are based on an updated audit risk assessment undertaken during the last quarter of each year.

24. The Committee continued to observe improvement in the quality of output of internal audits, with positive feedback from auditees and their appreciation for the value and professionalism of the OAIS senior management and auditors The Committee noted that the Internal Audit branch devoted significant time and efforts to support management through ad-hoc advisory services, which is part of the OAIS mandate. In particular, the Branch reviewed and provided input to a number of new and revised policies and procedures. Further, the Committee noted that OAIS was adversely impacted by events, like the length of concluding contractual arrangements for procuring external audit services, recruiting new staff, and the security and the Ebola-related situation. As a result, a higher than planned number of audits were carried over to 2015.

25. The Committee is mindful of the trade-offs between (a) risk appetite – and the level of audit assurance which can be reached given a level of resources – and (b) fulfilling management advisory ad-hoc demands which are unplanned in nature. In order to have a more realistic chance of achieving the internal audit workplan given the level of resources in 2015, the Audit Advisory Committee advised to focus on completing the engagements carried over from 2014 and to set aside more resources to address contingencies and meet unplanned demands like advisory services. This would result in a reduced number of assurance engagements and in a longer period to cover the country offices, regional offices and the various corporate processes. The Committee noted that the latter issue has already been raised by several stakeholders, including the Board of Auditors.

26. The Board of Auditors' long-form report raised an issue of risk assessment by OAIS[1] and its audit coverage periods for high-risk business units (over a 9-year cycle) and medium- and low-risk business units (over a 17-year cycle) and had recommended that UNFPA determine the levels of assurance appropriate for business units assessed as being high- and medium-risk and empower its internal audit with resources, as appropriate, to adapt its audit cycles to the chosen assurance level. UNFPA management informed the Committee that a review will be carried out in 2015 to study the assurance structures and audit cycles of other sister agencies and by taking into account the collective oversight structures in UNFPA. The Committee will review the result of the study and advise the Executive Director accordingly.

27. The continuous auditing tool is a joint initiative between the Internal Audit and Investigation Branches of OAIS. The result of this initiative would enable the Office to provide better audit coverage of low risk areas while providing the necessary analytical trends and data for proactive investigation. The Audit Advisory Committee encourages the Office to move forward with this initiative.

**Investigations**

28. The Audit Advisory Committee reviewed the activities and results of the UNFPA investigation function, which forms part of OAIS. The caseload, which is the number of cases worked on during the year, increased from 42 cases in 2012 to 105 cases in 2014. The increase may be attributed to several events for which no additional resources were allocated to the investigation function: (a) the transfer of responsibility for investigating allegations of harassment and abuse of authority from the Division for Human Resources to OAIS; (b) allegations related to vendors and implementing partners; and (c) enhanced tools for reporting misconduct and information to the investigation function on the UNFPA website. The Committee was also informed that the complexity of cases being handled increased, particularly related to investigation of external parties, such as vendors and implementing partners.

[1] Referred to in the report under the name of the "Division for Oversight Services".

29. With the increase in workload and complexity of cases, the OAIS Investigations branch relied on external investigator consultants to assist in managing its caseload. Nevertheless, the caseload is such that the open cases are increasing to non-acceptable levels resulting in a substantial reputational risk that can have many consequences, including the willingness of donors to provide extra budgetary funding for projects in the field. The Committee is of the view that resources are insufficient to address the caseload, and to provide advisory services like training or policy revision, thus recommended the Organization to address this deficiency.

**Advisory services**

30. The Audit Advisory Committee supports the representation of OAIS, in an advisory capacity, at management meetings and the provision of advice by the Office relating to key UNFPA business initiatives, for instance in reviewing draft policies as well as audit and investigation related clauses in agreements to ensure their compliance with existing regulations and rules, and in providing general support to decision-making.

31. The Committee recognizes the continued efforts of OAIS to provide assurance and advisory services to UNFPA to support the achievement of UNFPA strategic objectives within the constraints of available resources. The Committee noted that during 2014, the number of these advisory services had increased manifold, and most were requested and provided as urgent matters. These unplanned activities have started to affect the delivery of planned outputs of the Office, like the delayed completion of audits as previously mentioned. This is an activity that places significant requirements on senior OAIS staff and much of it is reactive in nature and thus difficult to plan. Nevertheless, the annual planning documents of OAIS should continue explaining the nature and added value of these services so that their scope and the impact on the internal audit and investigations functions are clearly understood. The Audit Advisory Committee encourages extending the discussion on the trade-off between risk appetite, audit coverage and investigation caseload, to the demand for advisory services, and resources made available for all of these functions.

**Reporting**

32. Report of the Director, OAIS, to the Executive Board on internal audit and investigation activities. The Audit Advisory Committee reviewed and noted the content of the Report of the Director, OAIS, on UNFPA internal audit and investigation activities in 2014 (DP/FPA/2015/7), which will be submitted to the Executive Board at its annual session 2015.

33. Public disclosure of internal audit reports. In accordance with Executive Board decision 2012/18, all internal audit reports issued by OAIS since 1 December 2012 are publicly disclosed on the UNFPA website. This usually occurs one month after the reports have been issued internally or after a reasonable time, to allow for consultations with the government of the Member State concerned, where applicable. The Committee notes that all reports were publicly disclosed, with the exception of one report where the ICT security of the Organization could be compromised.

# V. United Nations Board of Auditors

34. The Audit Advisory Committee meets regularly with the Board of Auditors, to:

(a) Discuss the Board of Auditors' workplans;

(b) Review relevant reports and management letters issued by the Board of Auditors, including reports on UNFPA financial statements and related internal controls;

(c) Discuss internal controls and matters raised by the Board of Auditors; and

(d) Review the adequacy of management response to the observations and recommendations of the Board of Auditors and assess the status of implementation.

35. The Audit Advisory Committee noted and concurred with issues raised in the Board of Auditors' long-form report on the UNFPA Financial Report and audited financial statements for the year ended 31 December 2013. These issues included long outstanding recommendations (2 and 5 out of 11 recommendations dating back to the period 2008-2009 and 2010-2011 respectively); governance; accountability and business transformation process, in particular the decentralization to the field offices; selecting, monitoring and auditing implementing partners; management of consultants, experts and temporary assistance; procurement and contract management; inventory management; funding of employment benefits liabilities; and the level of audit assurance provided by OAIS (formerly the Division for Oversight Services).

## VI. UNFPA Ethics Office

36. In its October 2014 meeting, the Audit Advisory Committee had a private meeting with the new UNFPA Ethics Adviser. The Committee supports the ethics function in UNFPA, which fosters a culture of ethics, integrity and accountability. The Committee notes the continuous support and importance placed on the ethics function by the Executive Director and the senior management of UNFPA.

## VII. Conclusion

37. From the UNFPA internal governance prospective, 2014 has been a year in which a number of new or revised policies and procedures are set in place, many of which would result in promoting greater accountability and transparency with proper checks and balances. The adoption of the revised Financial Regulations and Rules by the Executive Board in June 2014; the development of the revised oversight policy; the further alignment of financial reporting systems in accordance with international accepted accounting standards; making financial information readily and timely available to managers; and continuous improvement and update of the internal control framework in line with international standards, are some of the examples of initiatives and achievements that UNFPA has undertaken and accomplished during 2014.

38. Areas that require further development and attention include:

(a) Further developing of the enterprise risk management;

(b) Addressing risks related to information and communication technology, including ICT governance and cyber security;

(c) Reviewing and agreeing on an acceptable level (in terms of years) of internal audit coverage to cover areas of high and medium risk areas;

(d) Allocating sufficient resources to handle complaints relating to investigations of:

(i) Allegations of harassment and abuse of authority;

(ii) Allegations related to vendors and implementing partners;

(iii) Allegations related to fraud; and

(iv) Allegations related to other misconduct.

39. The Audit Advisory Committee will continue to pursue in 2015 the issues identified in this report as well as other related issues within its mandate.

40. The Committee wishes to thank the Executive Director, the Deputy Executive Directors and senior staff, the staff of OAIS and of the Evaluation Office, the Board of Auditors and other UNFPA management and staff who participated actively in the Committee's activities and cooperated with the Committee in discharging its responsibilities.